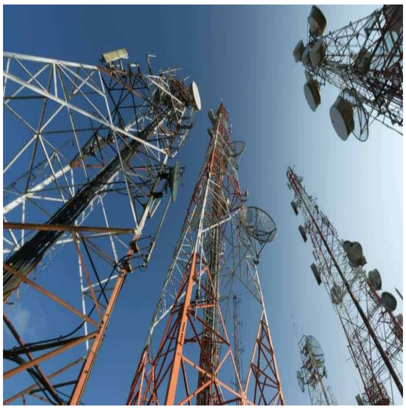

BCE (TSX:BCE) or Telus (TSX:T): Which Has the Better Dividend Right Now?

Description

BCE (TSX:BCE)(NYSE:BCE) and **Telus** (TSX:T)(NYSE:TU) are two Canadian telecom darlings that have suffered a modest fall from grace amid the COVID-19 crisis. With dividend yields of 6% and 5%, respectively, shares of both blue-chip companies are prudent buys for investors who seek to beef up the defensive portion of their portfolios. Large dividends can serve as shock absorbers for when market volatility ramps up again. And at today's levels, investors may just have a shot to have their cake (above-average yield) and eat it too (capital gains in a potential rebound).

While both companies have seen some impact from the COVID-19 crisis, both companies were minimally impacted relative to most other businesses out there. Moreover, the long-term fundamentals virtually look unchanged since before the pandemic. As such, income investors may wish to load up on shares of both companies on the dip.

This piece will have a closer look at both names and determine which, if either, is the better value today.

BCE

BCE is a stalwart with one of the safer 6% yields out there. What it makes up for in the size and strength of its dividend, it lacks in terms of capital appreciation potential and sustained long-term growth. With a market cap north of the $50 billion mark, BCE is a behemoth that's finding out the hard way it can be tough to sustain past growth with age. The company has averaged just 1.7% in net income growth over the past three years. And while it may be easier for the behemoth to grow via acquisition, I still don't see a way the firm can sustain a drastic pick-up to top-line growth.

Simply put, you're not going to get rich off the name. What you will get, however, is a stable dividend that will grow at a modest annual rate alongside a stock that should hold its own better than most other securities in the event of market-wide turmoil. The stock has a 0.38 five-year beta, which meansshares are less correlated to the broader markets. This, combined with the sizable dividend, makes fora low-volatility, defensive play that defensive investors should consider at today's modestly cheapvaluations.

At the time of writing, BCE stock is down 14% from its pre-pandemic high. Shares trade at 2.1 times sales and 2.65 times book, both of which are below that of the firm's five-year historical averages of 2.3 and 3.54, respectively. The company also has a solid liquidity footing (0.9 current ratio) and an operating cash flow stream that stands to be minimally impacted if the pandemic's bear-case scenario were to unfold.

I think BCE could regain more of the ground lost to the COVID-19 crash and think 10-12% in year-ahead total returns certainly aren't out of the question.

Telus

Telus is a "growthier" telecom than BCE, without bloated low-ROIC media assets and more compelling businesses like Telus Health and Telus International, both of which could help the company sustain a higher growth rate than that of its bigger brother.

By going with Telus, you're getting a better balance of growth and yield. For the 1% in yield, you'll give up relative to the likes of BCE; you're getting quite a bit. And you're also paying less on a price-to-sales and price-to-book basis, as Telus stock trades at a mere 1.9 times sales and 2.3 times book at the time of writing.

Like BCE, Telus is in excellent financial condition amid the pandemic, with a 0.9 current ratio and a minimal amount of debt that comes due over the near term. With a more diversified mix of businesses, I also view Telus as the more resilient in the face of this pandemic. This, combined with the lower valuation versus BCE and a better long-term growth profile, leads me to believe that Telus is a far more attractive stock at this juncture.

On a year-ahead basis, I wouldn't be surprised to see 14-18% in total returns. As such, I'd say Telus is a far better buy than BCE right now.

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